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USPACOM FOR FPA  
TREASURY FOR OASIA/INA-CRANE  
USDA FOR FAS/ITP AND FAS/FAA

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SUBJECT: Guangdong Province Q3 Economic Report

REF: A) Guangzhou 18102

B) Guangzhou 26903  
C) Guangzhou 29114

11. (U) SUMMARY: Guangdong Province registered double-digit gross domestic product (GDP) growth in the third quarter (Q3) of 2006 despite government control measures and an emphasis on increasing domestic consumption. Fixed asset investment did not grow as rapidly compared to the same period in 2005, and investment in certain industries (cement and metallurgy) and new construction projects declined. Real estate prices and sales volume rose significantly. Exports of mechanical, electrical, and high-tech products were particularly strong. The gap between urban and rural incomes widened. Guangdong's energy consumption remained high, but there was a greater emphasis on energy efficiency; energy consumption per unit of GDP decreased slightly. Guangdong's GDP and other key economic indicators will continue to rise in the fourth quarter. END SUMMARY.

(U) GUANGDONG FAST FACTS

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GDP, billion USD 226.7 (up 14.1%)  
GDP, percentage of national GDP 12.83%  
FDI, actual use, billion USD 108.1 (up 16.7%)  
Imports, billion USD 162.6 (up 20.2%)  
Exports, billion USD 213.3 (up 28.8%)  
Fixed-asset investment, billion USD 64.4 (up 15.6%)  
Retail sales, billion USD 836.3 (up 15.8%)  
Consumer Price Index 101.8 (up 1.8%)  
Disposable income per capita (urban), USD 1,525.8 (up 8.4%)  
Disposable income per capita (rural), USD 538 (up 7.7%)

12. (U) All currency conversions in this report are made at the average exchange rate of USD 1 = RMB 8.0071. Percentages in parentheses represent growth compared to the same period in 2005 (according to the Guangdong Statistics Bureau).

13. (U) Led by a strong industrial production and export sector, Guangdong maintained a "steady economic development," according to the Guangdong Statistics Bureau. The Province's GDP reached RMB 1,815.36 billion (USD 226.7

billion), an increase of 14.1%. The value-added of the following sectors in the third quarter was:

Primary sector RMB 90.57 billion (USD 11.3 billion)  
Secondary sector RMB 962.53 billion (USD 120.2 billion)  
Tertiary sector RMB 762.26 billion (USD 95.2 billion)

This represents an increase of 3.2%, 16.9% and 12.1%, respectively.

#### NINE MAJOR INDUSTRIES CONTINUE TO PLAY LEADING ROLE

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14. (U) Growth in industrial production accelerated. In the first three quarters, the value-added of industrial enterprises with annual sales revenue of RMB 5 million (USD 624,000) or more (enterprises "above designated size," according to the Statistics Bureau) was RMB 772.34 billion (USD 96.5 billion), up 18.3%. Guangdong's nine major industries (electronics and IT, machinery and home appliances, petrochemical, textile and apparel, food processing, building materials, wood products and paper, pharmaceuticals, and automobile manufacturing) continued to play a leading role in this growth, with an income of RMB 557.01 billion (USD 68.8 billion), up 22.1%. Hi-tech manufacturers recorded particularly robust growth of 30.1%.

#### FIXED ASSET INVESTMENT

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15. (U) According to the Guangdong Statistics Bureau, the volume of fixed-asset investment is under control, and the investment structure is "optimized." Fixed-asset investment rose by 15.6% to RMB 515.29 billion (USD 64.4

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billion).

-- Investments in agriculture reached RMB 100.78 billion (USD 12.6 billion), up 40.7%.  
-- Industrial investments reached RMB 206.07 billion (USD 25.7 billion), up 21.5%.  
-- Investments in real estate reached RMB 117.53 billion (USD 14.7 billion), up 19.6%.

The government sought to limit investments in energy-intensive and highly-polluting industries, such as cement, steel, aluminum, and copper.

-- Investment in the cement industry was RMB 3.04 billion (USD 0.4 billion), down 21.9%.  
-- Investment in metallurgical industries was RMB 5.35 billion (USD 0.7 billion), down 9.1%.  
-- Investment in new construction projects totaled RMB 340.6 billion (USD 42.5 billion), down 25.2%.

#### REAL ESTATE

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16. (U) The weighted average price for commercial housing for the first three quarters of 2006 in Guangdong was RMB 5,325 (USD 665) per square meter, up 12% year-on-year. Sales of commercial building space were also brisk. While the total floor space sold only increased 7.3% to 31.9 million square meters, the sales value increased 20.1% to RMB 160.42 billion (USD 20 billion). The Central and Provincial Governments have taken steps to cool down the property market, yet these efforts have had little effect. Housing prices in Shenzhen and Guangzhou soared to RMB 9,691 (USD 1,210) and RMB 6,388 (USD 798) per square meter, up 31.9% and 19.7% respectively year-on-year.

#### FOREIGN TRADE

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17. (U) The volume of foreign trade grew 25% to USD 375.9

billion. Of that total, exports accounted for USD 213.3 billion, up 28.8%. Imports stood at USD 162.6 billion, up 20%. The trade surplus reached USD 50.7 billion, up 67.2%. Mechanical and electrical product exports reached USD 143.5 billion, up 27.9%; imports of these products reached USD 100.5 billion, up 26.3%. Hi-tech product exports reached USD 71.4 billion, up 27.8%; imports of these products reached USD 63.6 billion, up 30.5%. Rising commodity prices slowed the rate of import growth of crude oil, fuel, steel, and copper.

#### FOREIGN DIRECT INVESTMENT

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¶18. (U) The contracted value of Guangdong's foreign direct investment (FDI) totaled USD 17.5 billion, representing growth of 6.7%. The actual use of FDI reached USD 10.8 billion, up 16.7%.

#### INCOME

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¶19. (U) Urban and rural incomes both rose in Guangdong, but the gap between them widened. The average per capita income in urban areas reached RMB 12,217 (USD 1,525.8), up 8.4%. However, rural residents saw their average income rise to RMB 4,308 (USD 538), up only 7.7%.

#### RETAIL SALES, CPI, SAVINGS, AND EMPLOYMENT

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¶10. (U) Retail sales of consumer goods reached RMB 669.66 billion (USD 83.6 billion), up 15.8%. The consumer price index (CPI) rose by 1.8%. The food price index rose 1.9%, the transportation and communication index rose 0.5%, clothing index rose 1.3%, and the real estate index rose by 5.1%.

¶11. (U) Savings deposits by residents grew steadily,

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topping RMB 2,224.17 (USD 277.8 billion), up 13.5%. By the end of September, RMB and foreign currency deposits in all financial institutions reached RMB 4,202.42 billion (USD 524.8 billion), up 14.6%. Loans reached RMB 2,507.95 billion (USD 313.2 billion), up 13.5%.

¶12. (U) The Statistics Bureau credited a decline in unemployment to the peak industrial production season and the "One Package Employment Policy" (a combination of job creation incentives, loans to small businesses, and skills training programs). The unemployment rate for registered residents decreased from 2.72% in the second quarter to 2.67% in the third quarter. The unemployment statistics do not take into consideration migrant workers. In the city of Guangzhou alone, the Municipal Labor Department estimates that there are approximately 1.5 million migrant workers. Government and Chinese press estimates of the number of migrant workers in Guangdong Province vary from 19-22 million (Guangdong Province Vice Governor Lei told HHS Secretary Leavitt on December 12 that the figure was 21 million migrant workers); but international media estimate the figure at closer to 30 million.

#### ENERGY SAVINGS

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¶13. (U) Guangdong's energy consumption remained high, but there was a greater emphasis on energy efficiency; energy consumption per unit of GDP decreased slightly. In the first half of 2006:

- Energy consumption per unit of GDP decreased 2.7%.
- Electricity consumption per unit of GDP dropped 2.2%.
- Energy consumption per unit of industrial value-added declined 2.7%.

## PROBLEM AREAS

¶14. (U) The Statistics Bureau identified five main problems affecting the Province's economic performance:

- rising real estate prices despite the government's control measures;
- a slow increase in farmers' income due to natural disasters and high production costs;
- a net accounts receivable surge in industrial enterprises;
- pressure on foreign trade due to "increasing trade friction" (i.e. trade disputes and litigation); and
- rising prices of raw materials, and pressure to revalue the RMB.

## PREDICTIONS FOR YEAR END 2006

¶15. (U) The Guangdong Statistics Bureau also provided predictions for several year end figures:

GDP growth	14%
Export growth	25%
Fixed-asset investment growth	15%
Retail sales growth	15.6%
Consumer Price Index	2%
Growth in disposable income per capita (urban)	9%
Growth in disposable income per capita (rural)	6.8%

¶16. (U) The Province will continue to face challenges in balancing the need for economic development and protecting arable land. With China's National Day holiday and Mid-Autumn Festival, the fourth quarter is traditionally the peak season for consumption, and growth will continue to be robust. More emphasis will be placed on developing the recycling industry. The provincial government will also follow a number of national economic reform strategies, including calls to eliminate excess capacity in energy-intensive and highly-polluting industries.

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